

Z.F. MGCAWU DISTRICT MUNICIPALITY



DRAFT

ANNUAL BUDGET

20172020

Introduction

The draft annual budget for the Medium Term Revenue and Expenditure Framework for the period 2017-2020, is presented in the background of the District Municipality having received its 4th consecutive clean audit from the Auditor General for the 2015/2016 financial year. We managed to achieve these prestigious accolade based on the hard work of both council and administration but we are also cognisance of the fact that this outcome places a huge responsibility on us as the District to assist the local municipalities to also migrate from disclaimers of opinion from the auditor general.

In celebrating how we have come and how much we have accomplished, we need to look to the future and continue to plan and be prepared for the challenges and opportunities at our disposal looking at the triple challenges of poverty, unemployment and inequality facing our country.

This budget has been a product of very careful planning and forward thinking to ensure that we do not lose sight of the identified five year Integrated Development Plan (IDP) priorities. This IDP represents the new 5 year plan for the current council. The Municipal Systems Act requires us to ensure financially and economically viable municipalities and essentially this is guided by the IDP, which is our principal strategic planning instrument.

The Medium Term Budget Policy Statement 2018 notes that the South African economic growth for 2016 is just 0.9%, down from 2 per cent indicated in October last year. The South African economic growth for 2017 has been revised down to 1.3%, and it is expected to rise to 2.2% by 2018. However our country has been degraded downward to junk status by the International Credit Grading Companies. The weaker global growth prospects and slower growth rate in key merging markets. Slow growth means that the economy does not generate the tax revenue needed to balance our budget. The municipalities must adopt a conservative approach when projecting their expected revenue and cash receipts as well as pay particular attention to managing of revenue effectively and carefully and evaluate all spending decisions. In generating capacity for spending on key municipal infrastructure, the municipalities will have to identify inefficiencies and eliminate non-priority spending.

We as a district municipality in particular, have managed to continue to evolve as we adapted to new developments and the inevitable setbacks.

The Final Annual Budget, are compiled in very challenging circumstances for the district municipality. The administration of the council is good and on standard with the rest of the country,

- however the lack of proper funding hamper the change management challenges, mSCOA requires;*
- Municipal Systems Improvement Grant and the Fire Fighting Grant has been discontinued which put the limited revenue under more pressure*

Budget outline and legal requirements

The budget for the 2017/18 financial year has been drawn up in terms of chapter 4 of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Municipal Systems Act of 2000 (MSA) on matters specifically related to the budget as well as direction from National Treasury on policy guidelines (MFMA Circulars).

In terms of section 16 (1) of the Municipal Finance Management Act No.56 of 2003, the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. Subsection 2 of the MFMA provides that for a municipality to comply with subsection (1), the mayor of the municipality must table the budget at a council meeting at least 90 days before the start of the budget year.

The Municipal Finance Management Act, places the responsibility of budgets squarely on the shoulders of Mayors of municipalities, this is not just in respect of the tabling of budgets to Council but also to ensure that they are actively involved in the drafting of said budgets and ensuring regular meetings with the administration to discuss and give inputs in the drafting of budgets.

An inclusive budget participatory process was followed in drafting this particular budget. We received the inputs from Departmental heads and middle managers and frequent budget steering committees were held, this enabled us to view and review the figures to fully satisfy the needs of the District. Three budget steering committee meetings were convened during February and March 2017.

We drafted this budget from the premise that there is a need for the District to support local municipalities but also to illustrate the challenges we face as a District in accomplishing that goal. This budget places on us the responsibility to make a decision between competing priorities and fiscal realities. The challenge is to do more with the limited available resources.

The drafting of this budget was imperative that we ensure that the budget is realistic, sustainable and relevant and that it complies with all the requirements of the MFMA and the relevant circulars. National Treasury's MFMA Circulars No. 58, 59, 66, 67, 70, 72, 74, 75, 78, 79, 82,85 and 86 was consulted as guidelines for the process on compilation of the Draft Annual Budget 20172020.

The guidelines as set out in Circular 82 regarding Cost Containment measures have been part and parcel of the planning and budget process of the ZF Mgcawu District Municipality since 2011, when our Equitable Share Grant was reduced due to the re-demarcation of the DMA - Riemvasmaak and Swartkopdam. We have an Operation efficiency Plan which was compiled and implemented in 2013 and a Cash Back Report are implemented during 2014 to monitor and control spending on a weekly basis by the accounting officer.

Role of the District Municipality

As the District Municipality, we are entrusted with the responsibility of building the capacity of local municipalities and rendering support services to them. In light of this, both our Integrated Development Plan and SDBIP have been drafted in such a way that it speaks to the needs of the local municipalities and determines to what extent we can give support as we truly strive towards being a centre of excellence. We acknowledge that a credible budget requires effective economic understanding and allocating resourcing in line with policy priorities and delivering services efficiently.

The vision and mission of the district municipality has changed during the past five years to emphasis our constitutional mandate as a District Municipality after the re-demarcation of the DMA (Riemvasmaak and Swartkopdam) and the Roads Agency Function that went back to Provincial Department.

We further attempt to achieve the following objectives:

- *To assess and provide targeted support improving institutional capacity and service delivery capabilities of category B-municipalities*
- *To promote environmental health and safety of communities in the ZF Mgcawu District through the proactive prevention, mitigation, identification and management of environmental health services, fire and disaster risks.*
- *To facilitate the development of sustainable regional land use, economic, spatial and environmental planning frameworks that will support and guide the development of a diversified, resilient and sustainable district economy.*
- *To market, develop and co-ordinate tourism in the ZF Mgcawu District.*
- *To assess and monitor the status of infrastructure needs and requirements of B Municipalities.*
- *To ensure efficient business operations and to fulfils the assurance statutory requirements of the ZF Mgcawu District Municipality.*

District Challenges

We have extensively maintained transparency when it comes to the budget process and that has informed our decision making in respect of this budget.

It is important that we understand the challenges that we face as a District and these challenges, have a direct impact on the financial status of our Municipality. These challenges include but are not limited to the following:

- *The District Municipality simply does not have sufficient funding to fund all areas that need to be funded - with this in mind; we have resorted to source alternative revenue sources by appointed a consultancy firm on risk based to find means and ways to improve the financial position of the district municipality. This project also involved the local municipalities to have evitable change in the LED, Tourism and Project Management Units, that will have measurable deliveries to better the lives of the communities.*

- *The District Municipality is 100% grant dependent*
- *We have zero capital projects*

We are working towards building a responsive, caring and accountable local government and we are mindful of the difficult economic conditions facing our country, therefore our decisions need to be characterised by the realities of the budget without underestimating the delivery of services to our people.

Budget 2017/2020

DC8 Z F Mgcawu - Table A1 Budget Summary							
Description R thousands	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<u>Financial Performance</u>							
Property rates	–	–	–	–	–	–	–
Service charges	–	–	–	–	–	–	–
Investment revenue	–	–	–	–	650	700	750
Transfers recognised - operational	–	–	–	–	61,787	73,331	72,604
Other own revenue	–	–	–	–	5,228	4,585	4,493
Total Revenue (excluding capital transfers and contributions)	–	–	–	–	67,665	78,616	77,847

The total revenue amounts to R 67,665 million.

Transfers Operational are 91 % of the total Revenue Budget.

Other Revenue amounts to R 5,228 million which include VAT of R 1,5 million and R 3 million allocated for Alternative Revenue Sources.

The Conditional Grants that are gazetted for the district municipality are set out below.

DC8 Z F Mgcawu - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Operating Transfers and Grants										
National Government:		–	–	–	–	–	–	60,687	72,963	72,224
Local Government Equitable Share								55,770	65,988	68,213
Finance Management								1,250	1,000	1,000
Municipal Systems Improvement								–	3,124	–
EPWP Incentive								950	–	–
RRAMS								2,717	2,851	3,011
Provincial Government:		–	–	–	–	–	–	1,100	368	380
Housing								750		
RRAMS										
Total Operating Transfers and Grants	5	–	–	–	–	–	–	61,787	73,331	72,604

The table below indicates that the total operational expenditure for 2017/18 amounts to R 66,104 million. Employee Related Cost is the highest expenditure type for the council and the budget amount are R 45,770 million (70%). It was budgeted for all positions on the current organogram.

DC8 Z F Mgcawu - Table A1 Budget Summary

Description	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Financial Performance										
Employee costs	–	–	–	–	–	–	–	45,770	49,294	53,041
Remuneration of councillors	–	–	–	–	–	–	–	3,839	4,134	4,448
Depreciation & asset impairment	–	–	–	–	–	–	–	583	628	675
Finance charges	–	–	–	–	–	–	–	5	5	6
Materials and bulk purchases	–	–	–	–	–	–	–	1,537	1,655	1,781
Transfers and grants	–	–	–	–	–	–	–	5,346	6,441	3,851
Other expenditure	–	–	–	–	–	–	–	9,025	9,681	10,379
Total Expenditure	–	–	–	–	–	–	–	66,104	71,839	74,182

The district municipality does not have regulated tariffs which can be aligned to the Budget as Realistic Anticipated Revenue.

The district municipality does not receive any Capital Grants from National or Provincial Government Departments for capital projects. The Budgeted Capital Expenditure will be funded partly from own funds and the Equitable Share Grants for the:

- Upgrade of the archives as prescribe by legislation
- IT infrastructure acquisition for mSCOA readiness
- Acquisition of vehicles

DC8 Z F Mgcawu - Table A1 Budget Summary										
Description	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Capital expenditure & funds sources										
Capital expenditure	-	-	-	-	-	-	-	1,530	3,000	1,350
Transfers recognised – capital	-	-	-	-	-	-	-	655	2,152	1,274
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	-	-	-	-	-	-	-	875	848	76
Total sources of capital funds	-	-	-	-	-	-	-	1,530	3,000	1,350

The table below summarised the cash flow of the district municipality. Net cash from (used) financing are R nil because the district municipality does not have long term debt currently as DBSA loans have been paid off during 2016/ 17 and does not anticipate to take up any loans. The district municipality anticipate that Cash/cash equivalents at the yearend will amount to R4,945 thousand.

DC8 Z F Mgcawu - Table A1 Budget Summary										
Description	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Cash flows										
Net cash from (used) operating	-	-	-	-	-	-	-	3,488	10,489	7,638
Net cash from (used) investing	-	-	-	-	-	-	-	(1,330)	(2,900)	(1,200)
Net cash from (used) financing	-	-	-	-	-	-	-	-	-	-
Cash/cash equivalents at the year end	-	-	-	-	-	-	-	4,945	12,534	18,972

As a District we have been in discussion with the local Municipalities to ensure that we attend to the support services needs identified by them. The costs for rendering support to our locals are mainly funded from the Equitable Share funding allocated by National Treasury. The budget is an instrument through which we manage public funds in a way that ensures that we improve the quality of life of our people and ours is to ensure that we assist local municipalities in achieving their goal of delivering basic services.

DC8 Z F Mgcawu - Table A1 Budget Summary

Description R thousands	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<u>Cash backing/surplus reconciliation</u>										
Cash and investments available	-	-	-	-	-	-	-	6,350	9,216	7,845
Application of cash and investments	-	-	-	-	-	-	-	4,303	4,789	5,290
Balance - surplus (shortfall)	-	-	-	-	-	-	-	2,047	4,426	2,555

The Cash Back Reconciliation table above indicates that the MTREF Draft Budget of the district municipality is funded and anticipates a surplus of R 2,047 Thousand.

Conclusion

We reiterate the fact that drafting this budget has been difficult due to the economic conditions facing our country but we are committed to ensuring that we manage public funds in a prudent and responsible manner thereby ensuring that government is more efficient, accountable and transparent to the people it serves.

It is crucial that as a government we invest in our youth to ensure a skilled and capable workforce to support government priorities. Therefore the district municipality enrolled all middle managers to obtain the minimum competency level as required by National Treasury. Various junior officials are enrolled for the LGSETA NQF level 4 and 6 Certificate for Municipal Financial Management and Public Administration to equip them with academic qualifications. Individual municipalities require different fiscal policy responses in order to achieve their developmental objectives. Despite an overall improvement in the provision of infrastructure, widespread poverty and inequality, structural unemployment and a slow pace of transformation thwart the realization of our developmental goals.

The Minister of Finance said in his budget speech that “we must spend government money as if we are spending our own money” this means more prudent and responsible spending.

As a district municipality we hope that the 2015 Budget speech of the MEC Finance and Economic Development of the Northern Cape shared with us in his budget speech that government will strengthen the shared services in the district municipalities in areas of financial management and in line with this a Cooperative Governance Agreement has been signed between COGHSTA and Provincial Treasury that aims to coordinate the support approach to municipalities.

We are convinced that our management team, officials and workers are committed to serve and make a lasting contribution to improve the quality of life of every citizen.

The Draft Annual Budget 2017/2020 was presented and discussed in the Financial Viability, Mayoral Committee Meetings and workshop with all councillors who share the oversight responsibility to ensure sound, clean financial administration are met.